ANNUAL REPORT 1974
GREYHOUND COMPUTER OF CANADA LTD.

1974 Report to the Shareholders

Your Directors are pleased to submit the Company's Annual Report for the year ended December 31, 1974. As summarized in the highlights section on the opposite page, revenues increased to $5,430,000 from $5,209,000 in 1973.

Net income after provision for deferred income taxes, decreased to $435,000 from $661,000 in 1973. This produced earnings per share of 11 cents compared to 17 cents in 1973. The decline in net income was attributed primarily to record interest rates, decreasing lease rates, and increased direct leasing costs, including maintenance, re-configuration and re-location of equipment.

During the year, $3,350,000 was invested in additional computer equipment, for resale and for lease.

Greyhound Computer's business is the continuing management of the System 360 computer equipment in its portfolio, and the purchase, sale, lease, financing and marketing of other computer equipment. Through the addition of larger memories, more powerful and higher capacity peripheral devices and a sophisticated, yet easy to use operating system, the System 360 equipment portfolio value is enhanced as a result of the increase in its effective performance.

Your Company continues to provide an attractive alternative to computer users who require powerful, cost-efficient computing systems. For Canada, 1975 is likely to be a year marked by a combination of relatively slow growth and still rapid price inflation. Greyhound Computer's System 360 equipment provides an opportunity for our present customers and cost conscious prospective users, to obtain substantial savings in their data processing operations.

Deteriorating economic conditions throughout 1974 resulted in prospective clients deferring computer decisions in this uncertain, unsettled period of time. This, coupled with increased competitive pressure from current IBM products and policies, along with severe price cutting by other competitors in the Canadian marketplace, has resulted in a high rate of return of our equipment, and made it more difficult for our salesmen to re-lease our equipment at profitable rates. This trend is expected to continue throughout 1975.

We have engaged COM CONSULTANTS LTD., Mr. Paul A. Reeves, President, to represent Greyhound Computer in British Columbia. This will provide the local sales coverage needed to service our present customers, and expand our customer base in British Columbia.

We have hired additional experienced computer salesmen in both Toronto and Montreal to provide more sales coverage, in these important Metropolitan areas, for our portfolio of System/360 equipment and the sale of high performance disk and tape storage systems.

Several computer users have made effective use of our Greyhound Computer monitor service, whereby an electronic measuring device (Monitor) is attached to their computer while it is operating in a normal work environment. The measured results are analyzed, and with this information the user can make better decisions as to the computer hardware configuration best suited to his needs.

Greyhound Computer participates in the Computer Lessors Association. Several of our Customers make effective use of this association's professional consulting service which provides Software Systems Support thus enabling these customers to achieve improved performance.

Your Company offers a series of programs designed to eliminate a substantial portion of the effort required to convert from a System/360 Model 20 to a larger System/360, such as a Model 30, from the Greyhound Computer portfolio. A similar service is available to assist the System 3 user to convert to a more powerful, more economical System from Greyhound Computer.

By providing these valuable services and strengthening our sales force, your Company is prepared to meet the needs of our customers and the challenges to be encountered in the 1975 marketplace.

The achievements of 1974 were due in large measure to the team effort of all Greyhound Computer people. Their contribution is gratefully acknowledged.

On behalf of the Board,

W. D. Maunder
President and Chief Executive Officer.

Greyhound Computer of Canada Ltd. and Subsidiary Company

(Incorporated under the Canada Corporations Act)

Consolidated Balance Sheet

Assets	December 31 1974	1973
Cash	$ 24,526	$ 37,276
Receivables (Note A):		
Finance leases and other contracts due in instalments to 1978 ($698,928, 1974 and $404,000, 1973) due within one year	1,984,601	1,659,702
Less unearned income	390,632	295,695
	1,593,969	1,364,007
Accounts receivable on sale of computer equipment	700,719	—
Accounts receivable, less allowance for doubtful accounts ($90,000, 1974 and $61,327, 1973)	219,456	152,233
	2,514,144	1,516,240
Investment in Computer Equipment (Notes A and B):		
Cost	25,097,041	23,974,562
Less accumulated depreciation	11,729,209	9,317,675
	13,367,832	14,656,887
Estimated residual value of equipment on finance leases	434,844	—
Rental contracts in process	—	760,717
Computer equipment held for resale	—	425,106
	13,802,676	15,842,710
Leasehold Improvements and Furniture, less accumulated depreciation	35,500	40,184
	$16,376,846	**$17,436,410**

Auditors' Report

The Shareholders,
Greyhound Computer of Canada Ltd.

We have examined the consolidated balance sheet of Greyhound Computer of Canada Ltd. and its wholly-owned subsidiary company as at December 31, 1974 and the consolidated statements of income and retained income, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Substantially all of the assets of the Companies relate to IBM System/360 leasing operations, and the recovery of the Companies' investment in related computer equipment at December 31, 1974 is dependent upon the many factors described in Note B. We have reviewed the Companies' forecasts of future leasing operations, which anticipate recovery of their investment in computer equipment, and believe that the assumptions and the data upon which the projections were based are reasonable. However, with the uncertainties as to future rental and interest rates and the significant decline in sales values of certain IBM Systems/360 equipment during 1974, the achievement of the Companies' projections cannot be assured.

In our opinion, subject to the foregoing uncertainties which may affect the Companies' ability to recover their investment in computer equipment, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants
Toronto, Ontario
January 31, 1975.

Liabilities and Shareholders' Equity	December 31 1974	1973
Short-Term Liabilities:		
Accounts payable — trade	$ 265,911	$ 44,152
Accounts payable — computer equipment	125,843	1,734,123
Accrued expenses	169,702	80,001
Rentals received in advance	56,032	62,452
Income taxes	11,400	—
Current portion of long-term debt	102,096	102,315
Due to Greyhound Computer Corporation (parent)	43,731	339,123
	774,715	2,362,166
Long-Term Debt, less current portion included above (Note C)	4,330,606	4,624,629
Deferred Income Taxes (Note A)	3,105,313	2,718,971
	8,210,634	9,705,766
Shareholders' Equity (Note D):		
Capital stock, without par value		
Authorized — 6,000,000 shares		
Issued and fully paid — 4,000,000 shares	5,014,250	5,014,250
Retained income	3,151,962	2,716,394
	8,166,212	7,730,644
	$16,376,846	**$17,436,410**

On behalf of the Board

G S Clarke

Director

Director

See notes to consolidated financial statements.

Consolidated Statement of Income and Retained Income

	Year Ended December 31	
	1974	1973
Revenues (Note A):		
Computer rentals and earned income on finance leases	$4,877,354	$4,939,395
Computer related services and net gain on sale of equipment	552,303	269,482
	5,429,657	5,208,877
Expenses:		
Depreciation of computer equipment (Note B)	2,549,647	2,262,776
Other direct leasing costs, including maintenance, reconfiguration and relocation of equipment	807,320	590,872
Interest (Note C)	640,560	537,762
Selling, administrative and other operating expenses	598,821	534,280
	4,596,348	3,925,690
Income Before Income Taxes	833,309	1,283,187
Income Taxes (Note A):		
Currently payable	11,400	–
Deferred	386,341	622,074
	397,741	622,074
Net Income	435,568	661,113
Retained Income, January 1	2,716,394	2,055,281
Retained Income, December 31	**$3,151,962**	**$2,716,394**
Net Income Per Share:		
Based on average outstanding common shares	$.11	$.17

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1974	1973
Source of Funds:		
From operations		
Net income	$ 435,568	$ 661,113
Depreciation of computer equipment	2,549,647	2,262,776
Deferred income taxes	386,341	622,074
Collections on finance leases	774,680	580,487
Earned income on finance leases	(308,189)	(93,014)
Total from operations	3,838,047	4,033,436
New borrowings	2,440,000	1,050,000
Disposals of computer equipment	1,609,710	239,299
Increase in other short-term liabilities	—	1,836,839
	7,887,757	7,159,574
Use of Funds:		
Purchase of computer equipment for:		
Operating leases	1,574,018	1,601,618
Finance leases and resale	1,774,900	2,341,539
Payment of long-term debt	2,734,023	3,233,440
Payment of borrowings from parent company	295,392	—
Decrease in other short-term liabilities	1,292,059	—
Increase in accounts receivable and other assets	232,503	26,848
Other items	(2,388)	12,118
	7,900,507	7,215,563
Decrease in Cash	$ 12,750	$ 55,989

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1974

A. Significant Accounting Policies:

1. Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiary, Canadian Computer Resources Limited, since acquisition on November 30, 1972, using the purchase method of accounting. All significant intercompany transactions have been eliminated on consolidation. The Company was 82.9% owned by Greyhound Computer Corporation at December 31, 1974.

2. Computer Equipment

Computer equipment is stated at cost and depreciation is provided on the straight-line basis. Substantially all IBM System/360 equipment is depreciated to a 10% residual value over ten years or to December 31, 1979, whichever is shorter. Other computer equipment is depreciated to a 10% residual value generally over five years. Repairs and maintenance expenditures, including refurbishing costs, are charged to operations as incurred.

The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the equipment accounts. Gains or losses on such sales or other dispositions are reflected in income.

3. Accounting for Revenues and Leasing Costs

Substantially all computer leases are accounted for on the operating method, and rentals are recognized as income when earned.

Certain computer leases are finance leases whereby the Companies receive as rent an amount greater than the equipment cost over the non-cancellable lease term. Contracts receivable, unearned income and the residual value of the equipment are recorded when lease contracts become effective. The unearned income (representing the difference between the aggregate lease rentals and the cost of related equipment, commissions and other direct expenses, less estimated residual value at the end of lease terms) is taken into income on a declining basis over the life of the related lease.

Computer service revenues are recognized in the period in which the services are rendered.

The net gain on purchase and sale of computer equipment is reflected as revenue.

Substantially all selling and administrative expenses and direct costs associated with leasing equipment, including installation, refurbishing and transportation expenses, are charged to income as incurred.

4. Income Taxes

Deferred income taxes are provided on timing differences between tax and financial reporting, primarily consisting of depreciation and income on finance leases.

B. Investment in Computer Equipment:

The Companies are third party lessors of data processing computer systems, principally IBM System/360 equipment. Substantially all computer leases are for initial terms of one to three years, and lease payments over the remaining non-cancellable terms are less than the Companies' remaining investment of $13,367,832 in the related computer equipment at December 31, 1974. The computer rentals over the remaining non-cancellable terms of outstanding leases at December 31, 1974 are approximately $4,605,000, which are due as follows: $2,811,000 (1975); $1,254,000 (1976); $438,000 (1977); $101,000 (1978) and $1,000 (1979).

The recovery of the net investment in computer equipment is dependent upon the continued utilization of the equipment at satisfactory rental rates subsequent to the expiration of outstanding leases or sale at a price not less than the investment at date of sale.

A substantial portion of computer leases have passed their non-cancellable terms and are subject to termination on 90-120 days' notice, in some cases upon payment of cancellation penalties. The table below sets forth, on the basis of net monthly rentals, the approximate percentages of computer equipment subject to cancellation (exclusive of equipment off-rent, in use in the Companies' computer service activities or on-rent to affiliated companies) at the end of 1974 and 1973.

	1974			1973
Equipment subject to lease cancellation within:	Subject to termination penalties	Without penalties	Total	Total
One year	26%	38%	64%	70%
Two years	6	15	21	14
Three or more years	7	8	15	16
	39%	61%	100%	100%

On the basis of cost, the percentage of total equipment off-rent was 22% at December 31, 1974, including 12% committed to new lessees at that date, compared to 12% and 8% respectively at December 31, 1973.

IBM's introductions of (1) certain lower-priced System/360 products, (2) a new series of computer equipment — System/370, including virtual memory announced in 1972 and described by IBM as a significant improvement over previous technology, and (3) a program of granting discounts of 8% and 16% for one and two year commitments, respectively, on certain peripheral equipment (without charges for overtime use or maintenance), as well as competition from other sources, continue to result in significantly lower rentals on new leases and renewals of System/360 equipment owned by the Companies.

Direct expenses incurred in leasing returned equipment and loss of rent during turn-around periods between customers are substantial. Computer leasing marketing activities in 1974 and 1973 were directed primarily toward leasing returned equipment and obtaining renewals of existing leases.

In addition to the adverse developments summarized above, the Companies also recognize that future advances in computer technology and the development, manufacture and marketing of new computers could significantly influence any estimate of useful lives and future rentals or sales values of computers owned.

IBM's current pricing of the System/370 makes it impractical for the Companies to purchase and lease these new products on an operating lease basis. The Companies, since 1969, have limited their purchase of computer equipment to situations where they were contractually obligated to upgrade a customer's equipment, where upgrading was necessary to maintain profitability on existing equipment or where additional equipment could be purchased on an unusually favorable basis.

During 1974, resale values of certain IBM System/360 computer equipment declined significantly which may adversely affect the rental rates and sales values obtainable by the Companies on their computer equipment.

The Companies have implemented certain programs to enhance the marketability of their System/360 computers and are presently developing additional programs. These enhancements include both extensions and modifications of the capabilities of the equipment itself (hardware) and operating and application programs (software) which improve customer utilization of the equipment.

The following summarizes computer equipment at December 31, 1974 and 1973:

	December 31, (000's Omitted)			
	1974		1973	
	Amount	Percent	Amount	Percent
IBM System/360, at cost:				
Central processing units:				
Models 360/30 — 40	$ 8,609	38.8%	$ 8,625	39.1%
Models 360/50 — 65 — 75	3,553	16.0	3,545	16.1
Total central processing units	12,162	54.8	12,170	55.2
Peripheral equipment:				
Printers, card read/punches and related control units	3,597	16.2	3,618	16.4
Disk and tape drives and related control units:				
High speed/capacity units	2,202	9.9	2,076	9.4
Lower speed/capacity units	4,243	19.1	4,189	19.0
Total disk and tape drives and related control units	6,445	29.0	6,265	28.4
Total peripheral equipment	10,042	45.2	9,883	44.8
Total IBM System/360 at cost	22,204	100.0	22,053	100.0
Less accumulated depreciation	10,973	49.4	9,013	40.9
	11,231	50.6%	13,040	59.1%
Other computer equipment — at cost less accumulated depreciation of $755,784 (1974) and $304,905 (1973)	2,137		1,617	
Total computer equipment — net	$13,368		$14,657	

IBM System/360 equipment was purchased primarily in the years 1968 and 1969. Based on present depreciation policies, the unrecovered

investment in IBM System/360 computer equipment expressed as a percent of cost of such equipment to the Company and its subsidiary company for the five years ending December 31, 1979, on the basis set forth in the above table, will approximate 43.0% (1975), 32.6% (1976), 22.6% (1977), 13.2% (1978) and 10.0% (1979).

After a careful review and evaluation of all the above factors and the forecasts of the Companies' System/360 leasing operations, which anticipate lower net profits as the result of declining rental rates and interest costs and increases in marketing, administrative and certain direct leasing costs, management believes that the remaining carrying amount of computer equipment will be recovered either by renewals, new leases or sale of the equipment.

C. Long-Term Debt:

Loans payable to banks, except purchase money mortgages, are guaranteed by the parent company and are subject to revolving credit agreements aggregating $8,000,000 with an interest rate of ½ of 1% in excess of the Canadian prime bank rate. As long as the Company maintains the required borrowing base no repayment is required; accordingly, no portion of the loans is classified as currently payable at December 31, 1974. However, indebtedness to any or all such banks not renewed by May 31, the annual renewal date, or not covered by continuing guarantees by the parent, becomes payable to such bank or banks over a term of three years.

The Company has contracted in each of the revolving credit agreements that it will grant security, at the request of the banks, on its computer equipment or leases and that it will not otherwise encumber its computer equipment (other than by purchase money mortgages) or leases in Canada.

Loans payable to banks at December 31, 1974 include a $212,702 purchase money mortgage, repayable by instalments over the next four years and bearing interest at a rate of 7¾% per annum on the outstanding balance. Computer equipment purchased with this loan has been pledged as security to the bank.

Interest on long-term debt amounted to $640,560 in 1974 and $537,762 in 1973.

D. Stock Option Plan:

Under the Company's Incentive Stock Option Plan 150,000 shares of the Company's capital stock have been reserved for purchase by officers and key employees of the Company and its related corporations. The price per share at which the options to purchase these shares may be exercised is the market price on the dates of granting the options. Options become exercisable in four equal annual instalments commencing one year after the dates granted, and expire five years from the dates granted.

At December 31, 1974 options were outstanding on 132,000 shares as follows:

	Shares
To directors and officers	
Granted August 12, 1970 at $1.275 per share	9,000
February 18,1971 at $1.40 per share	28,000
November 17, 1972 at $1.30 per share	20,000
February 17, 1972 at $2.20 per share	5,000
May 14, 1974 at $0.50 per share	29,000
To key employees of the Company	
Granted November 15, 1971 at $1.80 per share	30,000
November 17, 1972 at $1.30 per share	1,000
May 14, 1974 at $0.50 per share	10,000
	132,000

E. Commitments:

The Company has contractual commitments in respect of long-term leases of real property which mature July 31, 1979. Annual rents under these leases aggregate approximately $98,000 of which approximately $72,000 relates to premises not occupied by the Company. Rentals recoverable in 1975 in respect of this remainder are expected to total approximately $39,000. A provision of $40,000 was provided in 1972 for loss on unoccupied leasehold premises and is included in these financial statements.

F. Directors and Officers:

The Company has eight directors and six officers, of whom three are directors. The directors received no remuneration as directors and the aggregate remuneration of officers for the year ended December 31, 1974 was $106,079 (1973, $93,343).

The total remuneration of directors and senior officers (as defined by The Securities Act — Ontario) for the year ended December 31, 1974 was $161,980 (1973, $150,461).

Directors and Officers

Directors	Robert L. Borden, Calgary W. Carroll Bumpers, Phoenix Gordon B. Clarke, Phoenix W. Donald Maunder, Toronto Walter S. Owen, Vancouver Raymond F. Shaffer, Phoenix Olie E. Swanky, Phoenix Ralph C. Batastini, Phoenix
Officers	W. Carroll Bumpers, Chairman of the Board Gordon B. Clarke, Vice-Chairman W. Donald Maunder, President and Chief Executive Officer Kenneth E. Lancashire, Executive Vice-President and Secretary Treasurer Leonard J. Micallef, Assistant Secretary Ronald G. Nelson, Assistant Secretary
Auditors	Touche Ross & Co., Chartered Accountants
Registrar and Transfer Agent	The Royal Trust Company
Stock Listing	The Montreal Stock Exchange The Toronto Stock Exchange
Bankers	Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada The Mercantile Bank of Canada
Head Office	Greyhound Computer Building 65 Adelaide Street East Toronto, Ontario M5C 1K8
Annual Meeting	The annual meeting of shareholders will be held at 10 a.m. on Monday, May 5, 1975 in the Elizabeth Room of the King Edward Sheraton Hotel, 37 King Street East, Toronto, Ontario.

Head Office:
Greyhound Computer Building
65 Adelaide Street East
Toronto, Ontario M5C 1K8

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Greyhound
Computer of
Canada Ltd.

Mid Year
Report
June 30
1975

GREYHOUND COMPUTER OF CANADA LTD.

Toronto

August 11, 1975

Dear Shareholder:

Revenue from operations for the six months of 1975 ending June 30th was $2,457,162 compared with $2,798,235 for the same period last year. Net income amounted to $120,490 compared with $332,339 for the first half of 1974.

During the period the company changed its method of accounting for income on full payout leases. This resulted in additional revenue of $24,000 and net income of approximately $12,000 for the six months ended June 30, 1975, but will have no effect on total revenue or net income for the year.

The company has changed its depreciation policy with respect to all non-IBM computer equipment to match the depreciation policy for IBM equipment. This has decreased the depreciation charge for the six month period by approximately $76,000 and has increased the net income by approximately $38,000 for the six months ended June 30, 1975. This reflects the company's experience and its confidence that this non-IBM equipment has an economic life equal to IBM equipment.

In accordance with the accounting practices adopted by the company in reporting 1974 year-end results, the results of the previous year have been restated to include in revenue only the gross profit resulting from the purchase and sale of equipment rather than the total sales amount.

Total expenses increased slightly over 1974 due to increased cost of maintenance, installation, refurbishing, salaries, professional fees, rents, utilities, and other taxes. These increased costs were partially offset by the reduction in interest expenses due to lower interest rates and the reduced bank debt.

Competitive rates for equipment rentals remain at a low level throughout the industry, resulting in both lower revenue and net income than desired.

On behalf of the Board,

W. Donald Maunder
President and Chief Executive Officer

Comparative Consolidated Statement of Earnings (unaudited)

Six Months Ended June 30	1975	1974
Revenue	$2,457,612	$2,798,235
Depreciation	1,231,161	1,257,900
Interest	182,251	303,921
Other Expenses	802,160	632,317
Total Expenses	2,215,572	2,194,138
Income before Income Taxes	242,040	604,097
Provision for Income Taxes	121,550	271,758
Net Income	120,490	332,339
Earnings per share	3.0¢	8.3¢
Average Shares Outstanding	4,000,000	4,000,000

Second Quarter	1975	1974
Revenue	$1,238,946	$1,420,109
Depreciation	617,322	642,829
Interest	76,382	167,478
Other Expenses	416,889	318,194
Total Expenses	1,110,593	1,128,501
Income before Income Taxes	128,353	291,608
Provision for Income Taxes	64,422	122,895
Net Income	63,931	168,713
Earnings per share	1.6¢	4.2¢
Average Shares Outstanding	4,000,000	4,000,000

GREYHOUND COMPUTER OF CANADA LTD.

Consolidated Statement of Changes in Financial Position (unaudited)

Six Months Ended June 30, 1975

	1975	1974
Source of Funds:		
From Operations:		
Net income	$ 120,490	$ 332,339
Depreciation	1,231,161	1,257,900
Deferred income taxes	11,400	271,758
Collections on finance leases	350,574	373,940
Amortization of unearned income on finance leases	(126,988)	(132,217)
Total from operations	1,586,637	2,103,720
New borrowings	165,000	3,140,000
Disposals of computer equipment	74,312	81,055
Increase in other short term liabilities	93,256	6,702
Decrease in accounts receivable and other assets	648,394	—
	2,567,599	5,331,477
Use of Funds:		
Purchase of computer equipment for:		
Operating leases	228,632	1,183,176
Finance leases and resale	23,629	1,731,136
Payment of long term debt	2,314,977	1,886,297
Payment to parent company	15,073	332,763
Increase in accounts receivable and other assets	—	199,063
	2,582,311	5,332,435
Decrease in cash	$ 14,712	$ 958